

expansion petitions. The Pennsylvania PUC's standards are sufficient to ensure that only those carriers that meet the standards for technical, financial, and legal fitness are qualified to provide local exchange service in rural exchanges. In connection with this proposed condition, the Commission should order Citizens and Commonwealth to provide semi-annual reports on the state of competition within the Commonwealth territory. The reports should provide sufficient detail for the Commission to determine where Commonwealth faces competition and how many competitors are in the Commonwealth markets.

Second, the merger should be conditioned on a "fresh look" for any long-term contracts with customers that Citizens or Commonwealth may enter into before a competitive carrier is able to provide services in Commonwealth's territory. A customer that executes a long-term service commitment with Citizens—including customers that receive "free" DISH TV or a "free" Dell PC—should be permitted to terminate that agreement without penalty if it would rather take service from any competitor providing services within Commonwealth's territory.

Third, the merger should be conditioned on Citizens and Commonwealth agreeing not to assert a rural exemption under state or federal law against a competitive carrier making a bona fide request for interconnection under section 251(c) in the Commonwealth territory. The Pennsylvania PUC has already taken a number of steps to prepare rural LECs for competition, including the elimination of what was referred to as the absolute or blanket rural exemption under Section 251(f)(2).<sup>45</sup> Rural LECs in Pennsylvania already are required to comply with the

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<sup>45</sup> Petition of Rural Incumbent Local Exchange Carriers for a 36-month Suspension of Interconnection Requirements Limited to Only Those Requirements Set Forth in §251(b)(1) and (c) of the Telecommunications Act of 1996, Docket No. P-00971177 (Order entered January 15, 2003).

obligations imposed on local exchange carriers by sections 251(a) and 251(b) of the Telecommunications Act. The only remaining obligations for which Citizens and Commonwealth could remain exempt would be those imposed by section 251(c) of the Act. Eliminating the threat of assertion of a rural exemption would make competitive entry far more likely because it would significantly reduce the delay and expense of obtaining interconnection rights under section 251(c).

Further, the rural carrier exemption was not intended to protect incumbent carriers like Citizens that have a presence in more than 24 states serving more than 2.1 million access lines and earning annual revenues in excess of \$2.1 billion. The purpose of the rural carrier exemption was “to provide a level playing field” for small rural phone companies from competition from “a large global or nationwide entity that has financial or technological resources that are significantly greater than the resources of the [rural telephone] company or carrier.”<sup>46</sup> The number of CLECs with annual revenues in excess of \$2.1 billion could hold a conference in a phone booth. A rural carrier exemption may be appropriate to protect rural LECs whose financial position is sufficiently precarious so that government protection is needed in order to ensure universal service policy objectives, but it is clearly not appropriate for a company with the financial strength and size of a company like the combined Citizens/Commonwealth entity.<sup>47</sup>

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<sup>46</sup> Conference Report on S.652, Report No. 104-458, Jan. 31, 1996, at 119.

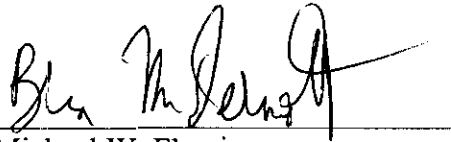
<sup>47</sup> Further, the consolidation of the seventh largest phone company with the eleventh largest phone company with an expected annual revenue stream of \$2.5 billion should raise concerns about entitlements to federal universal service funds. RCN does not expect the issue of USF to be resolved in this proceeding, but the Commission should consider whether a company like Citizens that paid \$338.4 million in dividends to shareholders in 2005 should receive \$160 million in state and federal universal service subsidies. Citizens Communications Amended Annual Report (March 2, 2006) at 8, 16.

RCN believes that given the opportunity, other competitive carriers would welcome the chance to compete with Citizens within Citizens' territories on the same terms that they compete with Verizon and Embarq in Pennsylvania. As long as Citizens can hide behind a rural carrier exemption, open and fully competitive local exchange markets will be delayed. The Commission should rule as a condition for approval of the proposed merger that Citizens and Commonwealth will agree not to oppose petitions filed by competitive carriers seeking interconnection rights under 251(c) by asserting the rural carrier exemption under section 251(f)(1) within Pennsylvania.

**V. REQUEST FOR RELIEF.**

For all the foregoing reasons, RCN respectfully requests that the Commission deny the Joint Application for the transfer of control of the domestic and international licenses of Commonwealth to Citizens. If the Commission permits the proposed transaction to proceed, it must impose conditions on its approval as recommended by RCN, as well as others that may be appropriate, in order to offset the ongoing harms to the public interest that will result from the transaction. The Commission should also grant RCN any additional relief that the Commission deems appropriate.

Respectfully submitted,



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Dated: November 13, 2006

Counsel for RCN Corporation and RCN Telecom  
Services, Inc.

RCN Corporation and RCN Telecom Services, Inc.  
Petition to Deny  
WC Dkt No. 06-184  
File No. ITC-T/C-20060929-00450

Exhibit List

- A. Map of RCN Lehigh Valley Footprint With Overlap With Commonwealth Telephone Company Territory
- B. Final Transcript, CZN-Q3 2006 Citizens Communications Co. Earnings Conference Call, Nov. 7, 2006
- C. Final Transcript, CTCO-Q3 2006 Commonwealth Telephone Enterprises, Inc. Earnings Conference Call, Nov. 7, 2006
- D. Final Transcript, CZN-Citizens Communications Co. Merger & Acquisition Announcement, Sep. 18, 2006
- E. UBS Investment Research, TelMeDaily, Nov. 8, 2006

## **Exhibit A**



APPROXIMATE  
CTCo BOUNDARY

RCN TELECOM SERVICES, INC.  
PA MARKET - LEHIGH VALLEY

APPROXIMATE  
CURRENT SYSTEM BOUNDARY

APPROXIMATE  
CTCo BOUNDARY

[illegible]



## **Exhibit B**



# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **CZN - Q3 2006 Citizens Communications Co. Earnings Conference Call**

Event Date/Time: Nov. 07. 2006 / 10:00AM ET

**THOMSON**  
Financial

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## CORPORATE PARTICIPANTS

### **Don Armour**

*Citizens Communications Co. - SVP of Finance and Treasurer*

### **Maggie Wilderotter**

*Citizens Communications Co. - Chairman and CEO*

### **Don Shassian**

*Citizens Communications Co. - CFO*

## CONFERENCE CALL PARTICIPANTS

### **Jonathan Chaplin**

*J.P.Morgan - Analyst*

### **Phillip Olesen**

*UBS - Analyst*

### **Tom Seltz**

*Lehman Brothers - Analyst*

### **Chris Larsen**

*Credit Suisse - Analyst*

### **Jason Armstrong**

*Goldman Sachs - Analyst*

### **Simon Flannery**

*Morgan Stanley - Analyst*

### **Jason Frazer**

*Raymond James - Analyst*

### **David Barden**

*Banc of America Securities - Analyst*

### **Mike McCormack**

*Bear Stearns - Analyst*

## PRESENTATION

### **Operator**

Good day, everyone, and welcome to the Citizens Communications third quarter earnings release conference call. This call is being recorded. At this time, I would like to turn the call over to the Senior Vice President of Finance and Treasurer, Mr. Don Armour. Please go ahead, sir.

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**Don Armour** - *Citizens Communications Co. - SVP of Finance and Treasurer*

Thank you, Sheila, and good morning.

The purpose of this call is to discuss the 2006 third quarter results for Citizens Communications which were released earlier this morning. If anyone needs a copy of this material, please call Lisa Lombardo at 203-614-5064. Form 10-Q will be filed later this week. On today's call are Maggie Wilderotter, Chairman and Chief Executive Officer; and Don Shassian, our Chief Financial Officer. During this call we will be making certain forward-looking statements particularly on matters relating to 2006 results and guidance. Please review the Safe Harbor language found in our press release and SEC files. On this call we will be discussing GAAP and non-GAAP financial measures as defined under SEC rules. In our earnings release and on our website, [www.czn.net](http://www.czn.net),

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we have provided a reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP. Please refer to this material during our discussion.

I'll now turn the call over to Maggie.

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**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Thanks, Don. Good morning, everyone, and thank you for joining us.

Citizens Communications had a solid third quarter of 2006 building on our strong first half results. Revenues for the quarter were 507 million, expense management resulted in a 55% margin, and capital expenditures were still under plan for the year at \$65.1 million spent in the third quarter. All of these factors resulted in free cash flow generation of \$127.6 million. We achieved a comfortable dividend pay out ratio of 63%.

A big highlight for the third quarter was our announced purchase of Commonwealth Telephone Enterprises. Commonwealth is the 11th largest telephone company and does business in rural Pennsylvania. We believe this acquisition is a strategic fit for Citizens based on three primary reasons. First, it is cash flow accretive in year one without synergies, yet we believe we can achieve \$30 million of synergies over the first three years. Second, it is rural, which is our sweet spot, and there are revenue growth opportunities in increasing penetrations for high speed, bundles, long distance, and putting customers on one- and two-year contracts. In addition, Commonwealth has a disbursed and varied set of cable operator competitors. And third, this acquisition reduces our pay-out ratio. In 2009 when we are full tax payers, our pay-out ratio is expected to be reduced from 75% to below 70% as a result of this acquisition. Both Citizens and Commonwealth have submitted the necessary filings for this transaction with the Justice Department, the FCC, and the Pennsylvania Public Utilities Commission. SEC filings will take place shortly. Just a few weeks ago, we received Hart-Scott Rodino approval from Justice. Commonwealth anticipates a shareholder vote some time in early 2007, and we still are planning on a mid-year 2007 close for this transaction. We know in this time of uncertainty between now and close, this is hard on Commonwealth employees. All of us at Citizens appreciate what the employees of Commonwealth continue to do every day to service their customers and deliver results. We are also working on preliminary integration plans and are keeping the employees at Commonwealth informed of our progress.

Our solid third quarter revenue performance is a direct result of continued emphasis on selling bundled packages and enhanced data products to our customers. During the quarter, our high speed data customers increased to 362,000. Our Company-wide average revenue per high speed customer continues to be over \$40, and residential broadband penetration held steady at 22%. Our total net adds of 12,300 were less than the previous two quarters.

Heading into the third quarter, we made a decision to hold off on any major promotions during the quarter in order to put in place two very aggressive promotions for the fourth quarter. We did test one of these fourth quarter promotions for six weeks in August and September in our Rochester market with great success. The promotion is a triple play offer with a two-year contract that results in our customers getting a full year of the DISH Network's 200 channel digital package for free. We also coupled this offer with a new digital phone bundle of local and unlimited long distance for New York State. The results for the third quarter on these promotions in Rochester include the lowest access line losses in eight quarters, an increase of over 2000 new video customers, and an uptick in both high speed bundled sales and stand alone digital phone bundles. This competitive free TV offer is now available in ten additional markets for our fourth quarter promotion.

In those free TV markets and in all remaining markets, we also have a free PC offer. New high speed internet customers will receive a free Dell desktop PC with a two-year contract commitment and current high speed customers that commit to a three-year renewal can receive the free PC as well. Just to give you a sense of what we are seeing in terms of customer acceptance this quarter, in October, high speed sales were the highest that we have seen since January 2005. Finally, we have rolled out the digital phone offer in all markets nationwide. This national product bundle includes local and unlimited long distance as well as four key features for a very competitive monthly price.

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Being active in our communities and building loyalty and trust are of critical importance to us. We've launched an exciting community event program in the third quarter called Game On. Partnered with ESPN 360, we filmed two rival high school football games that were available for viewing on ESPN 360. These games in Rochester and Gloversville, New York, had attendance at each game of around 5,000 people. In addition, Frontier had huge presence in the stadiums and local press coverage, including TV, radio, newspaper, school fliers also to homes, and half time Frontier contests. We are filming an additional eight games through Thanksgiving in markets around the country. During the quarter we have continued to add new DISH Network video customers. Our video customer base at September 30th, 2006, now totals 52,600. Total net customers who have purchased Frontier Connections our triple play package with voice, video, and data products, topped 47,000. Access line losses for the quarter were 29,800 substantially the same as losses we experienced in Q2 which were 29,600.

On the operations front, I want to update you on several key initiatives. We announced in June that we will be consolidating our 14 call center facilities nationwide. We're doing this consolidation to improve service to our customers, insure a qualified sales and service workforce, and to reduce costs of operations. This is a multiyear project that continues to be refined based on analysis. We have just announced that our current Burnsville, Minnesota, call center will be one of the remaining call centers. We had previously announced our first call center location in DeLand, Florida. Both of these centers will each house over 500 reps within the next two years. In September, we brought the DeLand call center online with 165 employees now taking calls and doing outbound telemarketing. As Don Shassian mentioned on our last call, we have incurred some duplicate customer operations expenses with the opening of the DeLand call center, which will continue over the next several quarters as we execute this transition.

We're cognizant that this strategic customer service consolidation decision is unsettling for many of our existing employees, but we continue to keep all employees informed on our plans and we are proactive in communicating with them on decisions, timelines, and for those affected, employment options. Our work-at-home pilot was completed in September and based on solid results, we will be rolling this out nationwide through the end of 2007. Work-at-home will be available to 150 of our existing customer service representatives and will help provide continued employment to many of our CSRs that will be affected by center closings.

We have several labor contract renewals that have been completed or are in progress. First we have renewed labor contracts in Burnsville, Minnesota, and our Iowa, Michigan, and West Virginia markets. We are in negotiations with three bargaining units at this time. We are pushing for three key concepts in all of our new agreements. A level of performance-based pay, managing our costs, especially in the benefits arena, and more operational flexibility in servicing our customers. All of our markets are competitive and the bar for better products and enhanced service is raised daily by our customers. We continue to support the right of our employees to be represented, and we are trying to be fair partners with all of our unions; however, these new contracts must reflect the current competitive environment we operate in where costs need to be controlled and operational flexibility to service customers is a must. Also on the labor front I am pleased to announce that our internet help desk employees chose to decertify in an election a few weeks ago. This group had been represented by the [United Care] Union in Rochester for the past several years.

Regarding new products for 2006, we are making solid progress with our wireless initiatives. We continue to pursue a dual strategy of building a Wi-Fi data network in select markets to provide a large data hotspot footprint for specific customer segments. We plan to overlay these wireless data markets with a wireless voice offering that will be delivered by wholesaling minutes from Verizon Wireless, who has the most extensive footprint coverage in our territory. In Q2, we announced our first municipal agreement with the City of Elko, Nevada. In Q3 we have signed several more agreements, and I am pleased we now have five municipalities and one college who are implementing our Wi-Fi data network. These include the County of Elko, Nevada; the City of Cookeville, Tennessee; the City of Carlinville, Illinois; the City of Burnsville, Minnesota; and Orange County Community College in Middletown, New York. We are in active discussions with a dozen other communities and colleges to implement the Motorola Mesh, Wi-Fi broadband network in addition to voice service. Our citywide Wi-Fi data service in Elko, Nevada, turned on last week, and we now have paying customers. This six square mile network includes 78 nodes and extensive coverage throughout the city limits. In mid November, we will start to actively market the wireless data service in Elko. The



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Orange County Community College build is under way and should be completed this month. Finally, we also plan to test wireless voice later this quarter.

I want to mention that we continue to improve our web service products. We now have over 100,000 customers paying Frontier bills online each month. In addition, we have enhanced our customer websites to include more search opportunities, which generates incremental revenues for us through our relationship with Ask.com. Our priorities for the remainder of 2006 are about staying the course. A strong employee and customer focus, driving sales, improving our service delivery, launching new products, and maximizing financial returns.

Here now is Don Shassian, our Chief Financial Officer, to give you the financial overview of the 2006 third quarter.

**Don Shassian** - *Citizens Communications Co. - CFO*

Thank you, Maggie, and thank you, everybody, for joining us this morning.

Before I get into a discussion of the quarterly highlights, I would like to remind everyone as I have done in the past two quarters that there are three matters that have been accounted for or classified differently in 2006 than they were in 2005. First, we sold our conferencing business in March in 2005. Prior periods have been restated to reflect that business as a discontinued operation. Secondly, Electric Lightwave, which we have sold, is classified as discontinued operations. Prior years' data has been restated to reflect ELI as discontinued operations. Third, we have a one-third equity investment in Mohave Cellular Partnership that has been historically accounted for under the equity method. As a general partner of the partnership, we are required to consolidate this investment and reflect minority interest. Therefore, as a result of both classifying ELI and the conferencing business as discontinued operations and consolidating Mohave Cellular, our prior year numbers have been restated.

We had another solid quarter as we have once again increased our revenues, EBITDA, and free cash flow. Quarterly revenue increased over 1% and free cash flow increased 3% over last year's third quarter. Our free cash flow was \$127.6 million for the quarter and \$429.4 million through nine months, which puts us well on our way toward our free cash flow guidance of 500 to \$525 million for the full year. Our dividend pay out ratio for the third quarter was 62.9%, and 56.6% year-to-date 2006. The business generated \$47.3 million of cash in excess of our dividends for the quarter and \$186.3 million September year-to-date.

Our revenue increased 1.2% over third quarter 2005. We experienced strong growth in data and access revenues which include subsidies and to a lesser extent enhanced feature revenues offset by reductions in local revenue, long distance revenue, and equipment sales. Our third quarter revenue was also negatively impacted by some higher provisions for uncollectibles and lower USF surcharges to customers beginning in mid August 2006 as the calculation no longer permits the inclusion of high speed revenue. On a sequential basis, we continue to have good success in selling data products and enhanced services to our customers. Please note that revenues in the third quarter of 2005 were lower than expected due to the late filing with the Universal Service Fund last year. That revenue, which approximated \$10 million, was recorded in the fourth quarter of 2005. Data revenues for the quarter increased \$13.6 million or 29.7% compared to last year and increased more than 9% sequentially because of the continued growth in high speed internet subscribers as well as our pricing discipline in the marketplace. In addition, our high margin enhanced services revenue for the quarter increased 3.7% compared to last year because of our success in selling bundles of services. As a result, our ARPU has increased over 6% for the quarter and year-to-date.

With respect to high speed internet we added 12,300 high speed data customers during the quarter, which brought us to approximately 363,000 high speed internet subscribers at September 30. We've added more than 72,000 high speed customers over the last 12 months, which is an increase of approximately 25%. We emphasized value and the customer experience in our HSI sales, not price cutting. Our ARPU for high speed actually rose again this quarter, and it is now strongly above \$40 per month per subscriber. During the quarter, we added 7400 new bundle customers, which means that the number of our bundle customers has increased by more than 74,000 or almost 18% from a year ago. The penetration rate for our bundles is up to 23.1% of total

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access lines, compared to 18.6% a year ago. And while our bundle penetration has increased, our overall penetration of some of these features like caller ID, call waiting and voice mail can be better.

As Maggie mentioned, we trialed various new marketing programs during the quarter in order to finalize our emphasis on fourth quarter campaigns. Our high speed and bundle net adds during the quarter were less than we anticipated, but it did help us finalize our thinking for the fourth quarter. The good news is that the response for a new fourth quarter campaigns has been very strong as our monthly gross adds for high speed in October are up over our monthly gross adds in third quarter. In addition, our monthly gross adds of feature bundles and video are also up significantly over third quarter. As a result we are expecting to obtain strong net adds in the fourth quarter which will give us a good start out of the gate for 2007.

Our access line losses were 29,800 during the third quarter of this year which is consistent with the rate of loss in the second quarter. About 26,800 of the line losses were residential. Of the residential line loss during Q3, 4400 were second lines, many of which were upgraded to our high speed internet service. In Rochester, both high speed internet and telephony competition remains rational. Our rate of line loss in the Rochester market decreased in Q3 2006 as schools are back in session, and we saw a favorable impact from one of our new campaigns which was trialed in Rochester. As Maggie mentioned we experienced the lowest level of quarterly access line loss in Rochester since 2004. Business line losses for the entire Company for the third quarter were 3,100 which is slightly up as compared to the second quarter but still a vast improvement over our business line losses in the past two years.

On the expense side, we continue to demonstrate tight cost management. As I mentioned last quarter, we did experience cost increases during the quarter as anticipated. Our EBITDA margin for the quarter was 55% which was a significant improvement over Q3 last year and was in line with our expectations. Our \$8 million improvement in other operating expenses over third quarter 2005 is primarily due to reduced headcount, strong cost management in benefit-related expenses, and the fact that third quarter 2005 had a \$3 million charge for severance costs. Our \$7.2 million increase in other operating expenses over second quarter 2006 was anticipated and was due to higher overtime for field operations, costs incurred to start up our call center at DeLand, Florida, increased common costs from the ELI Electric Lightwave separation, some regulatory fees true-ups and no tax refund similar to that received in the second quarter. Our capital expenditures for the quarter were \$65.1 million as we have focused on our growth opportunities, our competitive position in the marketplace, as well as return on investment and a review of capital projects. Our capital spending for the first nine months is slightly below last year's spending pattern, but this is simply a timing matter. We still expect to spend between 270 and \$280 million in 2006 including the capital necessary for us to build wireless data networks in our new contracted markets this year, which Maggie discussed earlier.

We did close on our sale of Electric Lightwave in July for \$243 million in cash, and the transfer of \$4 million in debt. This cash, along with the \$65 million we received in Q2 from the liquidation of the Rural Telephone Bank was integral to our ability to complete our previously announced stock buyback of \$300 million and debt repayment of \$150 million of debt maturing beyond 2006; however, due to the fact that we entered in substantive due diligence on Commonwealth Telephone in July, we did not restart our buybacks. Accordingly, no stock repurchases occurred during the quarter. Our stock buyback for the year is still \$135.2 million or 10.2 million shares, and therefore is only 45% complete. We do plan to complete the stock buyback plan subsequent to the closing of the Commonwealth transaction. During the quarter we retired the remaining \$29 million of our 6.75 senior notes due August 17th. Our Board also recently approved a fourth quarter dividend of \$0.25 per share payable on December 29 to shareholders of record on December 9, 2006.

I would like to reiterate our free cash flow guidance for 2006 is still between 500 and \$525 million. We will continue to focus on using our free cash flow to create long term and sustainable value for both our debt as well as equity holders. As Maggie mentioned, we expect the Commonwealth transaction to close in mid 2007. We have received clearance on Hart-Scott Rodino, have filed our applications for license transfers with the Pennsylvania PUC and the Federal Communications Commission. You should note that we also filed an 8-K yesterday which contained a recast 2005 10K. This filing was required to be done before we file our S-4 registration statement to register our shares and enable the Commonwealth shareholder meeting. The recast 10K, which will be incorporated by reference into the S-4 which should be filed today, presents Electric Lightwave as a discontinued operation for all years presented and consolidates Mohave Cellular for all years.

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In closing, we have very positive outlook for the future performance of this business, its ability to generate free cash flow and our ongoing debt retirement and stock buyback programs. With the success of the closing and integration of Commonwealth Telephone, we expect to be able to keep our dividend pay out ratio well below 70% even when we become full cash tax payers in 2009 and beyond, while maintaining a reasonable level of leverage.

Thank you for your interest. Operator, I would ask you to please open this up to questions.

## QUESTIONS AND ANSWERS

### Operator

[OPERATOR INSTRUCTIONS]. Jonathan Chaplin, J.P. Morgan.

### Jonathan Chaplin - J.P.Morgan - Analyst

Good morning, thanks. Two quick questions if I may. I'm wondering what the EBITDA impact of the free TV and free PC offers were. Obviously, I'm assuming it's pretty small this quarter but I'm assuming it's going to be more meaningful in the fourth quarter and on an ongoing basis. And then secondly, on access lines. The access lines were pretty consistent with -- the access line losses were pretty were pretty consistent with last quarter. I would have expected, actually, a slight improvement due to seasonality on the one hand and then due to the impact of the promotions that you had in Rochester on the other. So I'm wondering where else you're seeing pressure on access lines in your markets, and if you could just put that in the context of what you're seeing on the cable competition front, that'd be great. Thanks.

### Don Shassian - Citizens Communications Co. - CFO

Jonathan, first question, I'll take a shot on EBITDA. I'm not sure I can give you a forecast on the impact. It depends on how successful we are and how strong this continues to be throughout the quarter. I will point out that the accounting for these offers is a little bit different. The accounting for the free TV ends up being a charge contra revenue, so our revenue will be impacted for the year that we are offering the free TV, so we're seeing a nice strong take on that and actually very much stronger in the markets on free TV than we had anticipated. On the free PC offer, that actually will be a charge to cost of goods sold under the accounting rules, and so it's difficult for me to give you a guidance on it. It'll really depend on how strong these adds are, and we'll obviously keep you informed in the next earnings release but we're feeling very comfortable about these adds right now.

### Maggie Wilderotter - Citizens Communications Co. - Chairman and CEO

Yes, Jonathan, the other thing I would mention is with both of these offers they're geared around new customers for high speed internet, so the lift in revenues that we're getting in adding high speed customers, again, with average revenue over \$40 is almost a push to the video expenses that we have. So we're not anticipating any material change in EBITDA based upon these offers.

With regard to the access line losses, I would say that in our central and west regions, we did see increased competition in the third quarter by a number of cable operators launching phone products, including Mediacom throughout our central region. So we did have a little bit of puts and takes throughout the country, and we did see some rise in some access line losses, but we feel very confident with the digital phone launch that we've done nationwide with our local unlimited long distance and features. We now have a very competitive offer in the marketplace to counter that.

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**Jonathan Chaplin** - *J.P.Morgan - Analyst*

If I could follow-up quickly just on the first item. How much is a PC costing you guys and how many of the net adds -- DSL net adds in the Rochester market where you trialed it took the free PC?

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Well, we didn't trial free PC in the Rochester market. We only trialed free TV in that marketplace. And frankly, based upon the agreement we have with Dell on confidentiality, we cannot disclose the actual cost of the PC.

**Jonathan Chaplin** - *J.P.Morgan - Analyst*

Okay. Thank you very --

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

But we got a good deal.

**Jonathan Chaplin** - *J.P.Morgan - Analyst*

Okay.

**Operator**

Phillip Olson, UBS.

**Philip Olesen** - *UBS - Analyst*

Yes, thanks a lot. Actually two separate questions. First, on the wireless initiatives, if you could maybe just give a little bit more detail, specifically kind of what is the average cost to construct one of these networks? How is that CapEx split between you and either the municipality and the college, what the revenue split would be based on once the network is up and running? And what do you think kind of the ultimate terminal margins are for product once -- or for that initiative once the market is launched? And finally on wireless, of your footprint, how many markets do you think offer that opportunity? And then separately in the balance sheet, recognizing that you have not done the debt repurchases under the planned 150 million, does the Commonwealth deal preclude you from completing that planned debt retirement? And if not, if you could either give some details as to how you would expect to complete it, or will that be done as part of a comprehensive financing for the Commonwealth transaction? Thanks.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Is that all you want to know, Philip?

**Philip Olesen** - *UBS - Analyst*

That's it, I promise.



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**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

All right. Let me start on the wireless side. I'll kick the debt stuff over to Don to address with regard to Commonwealth. But with regard to the wireless initiatives, it's a fairly inexpensive build for us. We're actually looking anywhere from \$0.5 million to about \$2.5 million per city build. And again, it depends on the size and the topography of each of these locations, but remember we have a nationwide data backbone, so a big part of the capital for implementing this wireless data network is already in place. The second thing is on the split of CapEx, for the municipality agreement, we are paying the CapEx. We are building those networks. We are not expecting the municipality to participate on that. We do, however, have agreements with our municipalities that if, in fact, they are going to use wireless broadband services, they will use our services in those markets. In addition to that, we're getting rights of way from each of these municipalities to enable us to build using the infrastructure of the municipality. On the colleges, we do not have a capital split, but there is a pay-as-you-go and a commitment of that payment from the college or university up front in the contract, so there's a decent pay back for us with regard to building that specific anchor tenant.

**Don Shassian** - *Citizens Communications Co. - CFO*

Multiyear contracts.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

And these are multiyear contracts, 5 to 10 years depending on the contract that we do with a municipality or university. There are no revenue splits in any of our contracts, so all the revenue generated on these networks is our revenue, and we do foresee margins to be very strong on the wireless side. From a footprint opportunity, we have identified -- we have 285 counties where we do business. We've identified 50 markets where we think this type of a capability makes sense over the next three to five years, and that's our pipeline that we're working at this point. So that's sort of the overview on wireless. I'll now turn it over to Don on your debt question.

**Don Shassian** - *Citizens Communications Co. - CFO*

And on the margins, Philip, margins as we see them are better than the margins in the [ELI] business so they are north of 55%. On the debt issue, the transaction does not preclude. What we do feel that we have been precluded until we get our S-4 filed. Once that's filed, we are looking at a number of initiatives to continue to look at our existing debt in a number of different ways, and I'm not going to be able to announce anything specific, but we are looking at ways of trying to deal with the 2008s and trying to enhance our ladder, if you would, on those and we've got a number of initiatives we are pursuing to go forward with.

**Philip Olesen** - *UBS - Analyst*

That's great. Thanks a lot.

**Don Shassian** - *Citizens Communications Co. - CFO*

Thank you.

**Operator**

Tom Seitz, Lehman Brothers.

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**Tom Seltz** - *Lehman Brothers - Analyst*

Yes, thanks for taking the question. Just I guess a point of clarification on the computer and DISH promo. Is there not going to be any capitalization of any of the equipment that's involved in any of these things? It's all -- it's all going to be expensed at the time of sale?

**Don Shassian** - *Citizens Communications Co. - CFO*

That's correct, Tom.

**Tom Seltz** - *Lehman Brothers - Analyst*

Okay.

**Don Shassian** - *Citizens Communications Co. - CFO*

We're not taking ownership of the PCs. This is a transaction that is going to the customer and the cost of that is going to be expensed as it is installed.

**Tom Seltz** - *Lehman Brothers - Analyst*

Okay. Now, are your reps going to -- I mean, are you going to ever take physical ownership of the computers or are they going to go straight from the Dell warehouse to the customers?

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

They are drop shipped from the Dell warehouse directly to the customer.

**Tom Seltz** - *Lehman Brothers - Analyst*

Okay.

**Don Shassian** - *Citizens Communications Co. - CFO*

The only thing, Tom, that we're looking at, obviously if you can think about our process today to sell high speed, we sell it. Our rep is able to go to the home because we do installs for our -- all of our high speed today. There's somewhat of a delay between the sale and getting the PC delivered by Dell, so we have a little bit of a backlog right now in a lot of our high speed adds. And so we're constantly looking at whether we want to take any Dell PCs for a period of time to be able to get installs done but right now we're not thinking of doing that.

**Tom Seltz** - *Lehman Brothers - Analyst*

Okay. Okay. And then just -- I know you've split into operating regions. Are these promos going to be rolled out to all the regions at the same time, or are they going to be staggered or are some regions going to get these promos and others not? I mean, just trying to get some sort of idea on the magnitude here.

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**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Well, we have the free TV promo running in 11 markets right now.

**Tom Seltz** - *Lehman Brothers - Analyst*

Okay.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

And then the balance of our markets are front and center with the free PC offer. But in the 11 markets where we have free TV, we're actually giving the customer the choice between free TV or free PC.

**Tom Seltz** - *Lehman Brothers - Analyst*

Got you.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

But we're trying with the messaging to lead with one or the other from a positioning perspective.

**Tom Seltz** - *Lehman Brothers - Analyst*

Okay. Great. Thank you very much.

**Don Shassian** - *Citizens Communications Co. - CFO*

I also think it's important to understand what we've saw in Rochester with the offer last quarter is while the offer is very, very compelling, it just -- it stimulated the market and it stimulated discussions and opportunities for our reps to be able to continue to sell other products and services and that has been a very successful view for us in why we are now rolling this in all of our other markets.

**Tom Seltz** - *Lehman Brothers - Analyst*

Terrific. Thank you again.

**Don Shassian** - *Citizens Communications Co. - CFO*

Thanks, Tom.

**Operator**

Chris Larsen, Credit Suisse.

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**Chris Larsen** - *Credit Suisse - Analyst*

Hi, thanks, and good morning. Don, a question for you on the run rate expenses that we won't see from the third quarter into the fourth quarter, the Electric Lightwave stuff, could you give us a sense for what we'll be missing there? And then secondly, on the DSL, as you mentioned, it was a little light in this quarter. You didn't have the free PC promotions. Do you think this was a more function of turn to cable or gross adds, or any sense for what may have impacted the third quarter? And then the Wi-Fi product that you're doing. Are you going to be bundling that in terms of pricing with your DSL product? Thanks.

**Don Shassian** - *Citizens Communications Co. - CFO*

Chris, on the first one, the run rate expense, there are a number of expenses that came up in the quarter which we had anticipated, both the cost on DeLand and a common cost in Electric Lightwave. Those are all going to be continuing. The DeLand, as we continue to work through our consolidation process that Maggie mentioned earlier, so that's still going to be there for at least another quarter and it depends on how we continue to roll this out. There are some expenses in every quarter that are sort of one-timers that comes in and come out. And they're small and so there are a couple of items this quarter that are not necessarily recurring. We had an increase in some regulatory fees true-ups for the quarter that sort of hit us a little bit unanticipated. But then on the flip side, there's always some other things on the positive side, so the key I'd like to give guidance to as I gave last quarter, last quarter we hit 57% margins and I gave people guidance saying that that is not a sustainable margin level for us and this quarter came in where we had expected it to, at it's a margin level we feel very comfortable with.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

The -- just, Chris, to your question on high speed, we did see some uptick in our churn in the third quarter. Again, we believe that that has to do somewhat hand-in-hand with what we saw with cable operators launching digital phone in several of our markets from a new blitz perspective, so there is some pull through through high speed churn on that. We also had a number of customers that come up on their contracts on an annual basis so we think that that's where some of that vulnerability was. I'll also say that we did see some uptick in churn in New York that was attributable to the floods that we had there earlier in the year that we did have some customers in those affected areas had some fairly material damages to their homes. And the priority, we believe, what they're telling us, the priority has been to cut back on some expenses while they get their homes restored. We do believe we'll get those customers back on service.

The adds continue to be strong, not to the level that we had the quarter before, but again, we believe that's because we didn't have any drive for major promotions in the marketplace, but we still think there's a great opportunity for us to continue to press and push for more market share, and we do think that the free PC offer will help, especially because we still have a substantial number of customers in our markets that don't own a PC. And we believe by providing that capability and plus with our full install, we'll go -- when the Dell PC shows up, we go in with our technician, we set that PC up for the customer, we install high speed, we load our anti-virus software, we set up our portal, and that customer is ready to go when we leave that house. And we think that's a huge value driver that we can deliver in the market. Finally to your question on Wi-Fi and bundling. Absolutely, we are selling this product as an add-on to our existing high speed internet customers in these markets, so -- and we've kept it very simple for our customers, it's simply an additional 9.99 a month for consumer or business to have the hotspot Wi-Fi citywide coverage if they're a high speed internet customer with Frontier, so we think it's a very compelling offer. In addition to that, we are selling day passes, so we are also going to be getting incremental revenue from visitors to these cities, and again, keeping it very simple, it's 9.99 a month -- I mean a day for a day pass for anyone who comes into these markets and wants to use broadband access.



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**Chris Larsen** - *Credit Suisse - Analyst*

Thanks, Maggie. One other question. I know you can't give us the pricing on the Dell PCs, but could you give us a sense for the payback period on how long do you think it takes to recoup your cost into the PC or your costs all in or any way you want to give it to us?

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Well, we're -- again, we've just launched this so we're still -- we're still looking at what our total revenues will be with each of these customers that we bring on service, but we believe the payback is 12 months or less and that's what we're focused on, and as I mentioned it's a two-year contract for a new customer and a three-year contract for an existing customer, so we feel very comfortable with the investment.

**Chris Larsen** - *Credit Suisse - Analyst*

So well within the contract period?

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Absolutely.

**Don Shassian** - *Citizens Communications Co. - CFO*

Yes, sir.

**Chris Larsen** - *Credit Suisse - Analyst*

All right. Thank you.

**Operator**

Jason Armstrong, Goldman Sachs.

**Jason Armstrong** - *Goldman Sachs - Analyst*

Thank you, good morning.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Hi, Jason.

**Jason Armstrong** - *Goldman Sachs - Analyst*

Couple questions. First, maybe just a follow-up on the margins, Maggie, I think your comment was no material changes to EBITDA from some of the new bundling initiatives, TV or PC promotions. Given that you're expensing the PC at least, is your comment sort of -- is the interpretation that there's no sort of dilution to this metric over the lifetime of the customer or is the

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interpretation here that on an absolute basis there's no expectation of EBITDA dilution from this in the near term? And then second of all, just one more question on Wi-Fi. I'm wondering if you can help us think through the recurring cost structure of running a Wi-Fi network, sort of what the components are? Don, you mentioned 55% margins and I guess the next layer of the question is, do you just help us to think through sort of the margin gap available to you from having facilities-based operations in the area versus a municipality or some other type of entrant trying to offer the service. Thanks.

**Don Shassian** - *Citizens Communications Co. - CFO*

Margins, Jason, it -- we believe that our margins are going to be able to stay pretty steady. There's a flier here and the hypothetical I'll throw to you is if we get a huge take on free PC, the PC charge hits cost of goods sold when it's installed, so you can imagine in one quarter, if you got a huge take, you could have sizeable charge to -- an impact on EBITDA for that quarter. On the flip side, if it is a free TV, it is spread out over 12 months because it's a 12 month free process so EBITDA gets impacted over that 12-month period. We believe that we're going to be able to continue to maintain our margins. If the PC sale hits a home run, then maybe we're going to have a little bit of a blip, but we're not seeing an overwhelming take on PC versus TV. In many of our markets -- rural markets, TV is a very integral part of their lives and is a very important part of their lives and is a very strong take, more so that you might suspect the person living on the East Coast. It really is counter to what your thinking may be here on the East Coast. TV is very, very important. So macro, we think our margins are going to be very sustainable. On a short-term, it really depends on the mix of the product, but we also think that a number of our cost expense reduction initiatives we continue to focus on will hopefully enable us to keep our EBITDA margins where they are, as well as continuing to sell some other products and services on top of that.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Jason, with regard to your question on Wi-Fi and reoccurring costs, we don't see any material recurring costs that are just specific to Wi-Fi. There is some maintenance costs, of course, to the network that we factor into every one of these deployments. But if you think about it since it's in markets where we already do business, we are leveraging the infrastructure of our technicians, we're leveraging the infrastructure of our customer service reps. Our marketing and sales promotions because these are quadruple play opportunities for us, so -- and again, the data backbone network in terms of carrying the traffic. So we believe this is a very high margin play for us and a huge satisfier for customers and just another way for us to differentiate our services in the marketplace.

**Don Shassian** - *Citizens Communications Co. - CFO*

And a very, very good quality product. I mean, the backhaul costs are minimal for the most part because we've already got it there, so it's a very good quality product for our customers in our territories which is important for who we are and what we stand for.

**Jason Armstrong** - *Goldman Sachs - Analyst*

And just in terms of helping us think through barriers to entry, I mean, you guys clearly have a -- an advantage with an existing infrastructure. Relative to sort of the 55% margins that you just referenced, what do you think municipalities or some of the other providers we've heard mentioned sort of running municipalities Wi-Fi networks, what do you think the margin gap is from having this infrastructure advantage?

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**Don Shassian** - *Citizens Communications Co. - CFO*

Jason, I'm not sure I can -- I can shoot from the hip on that. Let me give some thought to that. I'm not really sure, but I do know that their start up costs are very, very significant and they're staying in touch with -- up to speed on technology. It's going to be very significant, but I don't think I want to throw a number out just shooting from the hip.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

I think you can think about it this way though, Jason, is with us going in and putting together an agreement on rights of way with these municipalities and we are also getting non-interference exclusivity on the infrastructure, and being first to market with these capabilities, I think it's a win/win but we're also -- as you remember, we're in very small markets. If you think about the size of these markets that we're talking about here, we're talking anywhere from 5,000 customers to 20, 21,000 customers so from a focus perspective, we think that if there's a competitor, they're not necessarily going to come into those size markets at this point.

**Jason Armstrong** - *Goldman Sachs - Analyst*

Okay. Thanks a lot.

**Operator**

Simon Flannery, Morgan Stanley.

**Simon Flannery** - *Morgan Stanley - Analyst*

Okay. Thank you. Good morning. Maggie, with the Commonwealth acquisition, it's obviously a new chapter for the -- sort of the Citizens over the last couple of years anyway in terms of cash deployment and so fourth. Does that preclude you from doing other M&A transactions, either before that's closed or even after that from a balance sheet perspective? There are [arbut] access lines which may or may not be available. So can you help us think about your sort of the near term goals so sort of 3 to 5 year outlook for consolidation? You've obviously got some pretty attractive cash flow accretion coming out of this both near term and longer term so does that sort of cause you to look at other acquisitions more positively? Thanks.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Hi, Simon. I would say, first and foremost, front and center for us right now is getting the Commonwealth acquisition integrated and doing a really great job on that and delivering on the expectations that we've set for our shareholders, so that's number one. I don't think it precludes us from looking at other opportunities. There might be small opportunities that we might look at, i.e. a market that might come for sale that's adjacent to some of our other markets that are small that would be easy to integrate. But we are not actively on the acquisition trail at the moment. We are definitely focused on Commonwealth. Now, that being said, we do believe that as other opportunities come up, we will look at those. We will be situational about it. We have a ten point criteria on acquisitions that we are very disciplined about and if lines come available and they are in our sweet spot, we will take a look at it and make a decision appropriately.

**Simon Flannery** - *Morgan Stanley - Analyst*

Okay. Fair enough. And just a clarification on the buyback. I think maybe Don said that the buyback would start once the deal had closed, but I understood that maybe you could start buying back after the shareholder votes. Is that a possibility as well, or are you going to just be more cautious and wait until the deal closes?

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**Don Shassian** - *Citizens Communications Co. - CFO*

The stock buyback is after close. The -- dealing with our debt can happen after we file our S-4. The difference between debt and stock. Does that help?

**Simon Flannery** - *Morgan Stanley - Analyst*

Thank you.

**Operator**

Frank Louthan, Raymond James.

**Jason Frazer** - *Raymond James - Analyst*

Good morning. This is [Jason Frazer] in for Frank Louthan. Just two quick questions. Could you just give us a quick update on your outlook for USF revenue in 2007? And secondly, just how -- what was the [high cat circuit growth] in the quarter and maybe the primary drivers of that? Thanks.

**Don Shassian** - *Citizens Communications Co. - CFO*

What was the second question?

**Jason Frazer** - *Raymond James - Analyst*

High cat circuit growth in the quarter and the primary drivers.

**Don Shassian** - *Citizens Communications Co. - CFO*

USF 2007, as we've mentioned in the past two calls, our USF revenue's been very strong this year. A component that we have and we are not -- it's not a large portion of our revenue, but the high cost funds support from the Federal Communications Commission was up this year as a result of relying and utilizing data from 2004, which is when there was a restructuring charge here and some of those costs worked their way in. We do expect to see as we rely on 2005 data in 2007, our USF high cost fund support revenue is going to be coming down a little bit. And I'm not sure I can give you any guidance. We'll give you guidance when we come out with our free cash flow guidance for next year, but USF revenue on the high cost side will be decreasing in 2007.

**Jason Frazer** - *Raymond James - Analyst*

Great, thanks.

**Operator**

David Barden, Banc of America Securities.

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**David Barden** - *Banc of America Securities - Analyst*

Hey, guys. Thanks for taking the question. We talked a lot about the promotions and kind of the mechanics and what we can on the costs. I was wondering if we could talk about the kind of higher level first. You've talked about the rational competition in Rochester, et cetera. But I guess when you look at this from the outside -- a year of free TV, a free computer -- it does kind of feel or at least look like maybe an escalation in the terms of the competitive environment or the stance that Citizens wants to take, certainly much more aggressive than any of the other companies we've seen in the sector to this point in time. So I guess first would be from a promotional standpoint, is this really just a promotion, a few weeks, a month, a quarter? And then second, as you sat down and decided to do this particular strategy, was it more of an attempt to kind of get out in front of cable, or did you feel like cable was starting to press harder and you felt you had to respond? Thanks a lot.

**Maggie Wilderotter** - *Citizens Communications Co. - Chairman and CEO*

Let me -- let me take a shot at it. Let me start by saying I think we are in very competitive environments everywhere where we do business, and we want to make sure that we are very focused on providing value to our customers and continuing to grow shares. Strategically, we think one of the most important things we can do is to continue to grow our broadband penetration and we have very high penetration today, and I think you have to look at different ways of continuing to push that penetration when you have high market share penetration. In addition to that, we believe bundled products reduce churn and increase stickiness, so the goal of these promotions were really to accomplish those two objectives. To get out front of any competition that we have in the marketplace, whether it's cable competition or others, but to position products in such a way that we can drive the agenda of share on broadband and bundled products. We call these promotions because we're doing them in the fourth quarter. Whether we'll do that longer or not will depend on what the results are from the fourth quarter. We were very encouraged by the results we saw in Rochester, and we were also very encouraged by the response we saw from a competitive perspective on these offers, so we're going to continue to drive this through the fourth quarter. We'll evaluate after that to see what we do for next year, but I feel that as we run this business and we have multiple products and services to deliver to customers that we should be proactive in the marketplace, not reactive. We should take the front line of making sure we are innovating for our customers because they expect us to.

**Don Shassian** - *Citizens Communications Co. - CFO*

And to try to really give them incentives to join us. We are not going to commoditize our product. We're not going to be lowering our price significantly, so we're trying to find ways to really incent our customers to join us and trial the things we've got and to stay with us.

**David Barden** - *Banc of America Securities - Analyst*

And if I could just follow-up real quick on that, to that point about bringing people in, you've in the past talked about kind of inbound and outbound share losses and if you could kind of give us an update on that, that would be great.

**Don Shassian** - *Citizens Communications Co. - CFO*

Inbound and outbound share --

**David Barden** - *Banc of America Securities - Analyst*

In terms of the causes or the drivers of the line losses in the quarter, typically you guys have seen it's been mostly not so much losses of existing customers but kind of lack of move-ins --